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The Hull Trade Program

BY DAVID H. POPPER

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with the aid of the Research Staff of the Foreign Policy Association

ALWAYS political dynamite in an American election campaign, the tariff issue has been thrust sharply to the fore in recent months. The customary debate between economic nationalists and moderate protectionists — free traders have long since vanished from the American political scene — is now centered on a new venture in American commercial policy, the Reciprocal Trade Agreements Act.[1] Under its terms, fourteen pacts affecting almost 550 American tariff items and many hundreds of export products have been concluded.[2] But unless the Administration's authority to negotiate such agreements is renewed, it will expire, with the law, on June 12, 1937. Shall it be continued? Are current partisan criticisms of tariff bargaining based on fact? Would the alternative course proposed by certain critics prove politically or economically viable for the United States?

The Roosevelt tariff program is virulently attacked in the 1936 Republican platform. "We will repeal the present Reciprocal Trade Agreements Law," it pledges. "It is futile and dangerous. Its effect on agriculture has been destructive. Its continuation would work to the detriment of the wage-earner and the farmer." A number of influential Republicans, nevertheless, are favorably inclined toward a policy of tariff moderation.[3] The platform leaves obvious loopholes for such a development. Only the "present" trade agreements law is condemned. While adequate protection for American goods is promised, other planks bind the party to "restore" the flexible tariff principle and "adjust tariffs with a view to promoting international trade. . . ."[4] The Republican candidate, too, has stated that he is "not opposed to reciprocal trade agreements." The type of reciprocity he favors, however, has perhaps less in common with that pursued by the Administration than with that advocated by some of its severest critics. Governor Landon urges tariff bargains only on "non-competing commodities," most of which are on our free list. He endorses so-called "selective" bargaining. He opposes use of the unconditional most-favored-nation principle at present. He demands that agreements be subjected to Congressional approval. Finally, while condemning "unnecessary" farm imports, he calls for revival of the foreign market for agricultural products.[5]

On the other hand, Democratic convention orators supported the trade program. The party's platform states: "We shall continue to foster the increase in our foreign trade which has been achieved by this Administration; to seek by mutual agreement the lowering of those tariff barriers, quotas and embargoes which have been raised against our exports of agricultural and industrial products, but continue as in the past to give adequate protection to our farmers and manufacturers against unfair competition or the dumping on our shores of commodities and goods produced abroad by cheap labor or subsidized by foreign governments."[6]

AMERICAN TARIFF BARGAINING[7]

The Reciprocal Tariff Act is a measure designed to aid recovery in one sector of the American economy. Gripped by the effects of world-wide depression, United States foreign trade had fallen

1. Public Law No. 316, 73rd Congress, effective June 12, 1934.
2. Computed from U. S. Tariff Commission, *Changes in Import Duties since the Passage of the Tariff Act of 1930 and Items on which Rates of Duty or Duty-Free Status is Bound in Trade Agreements,* Miscellaneous Series, second edition, June 1, 1936 (Washington, Government Printing Office, 1936); *Congressional Record,* July 1, 1936, pp. 10799-10823.
3. Cf., for example, statements of Robert L. O'Brien, *New York Times,* April 11, 28, 1936; also the generally complimentary references to trade agreements in the *New York Herald Tribune* editorial columns.
4. For text of platform, cf. *New York Times,* June 12, 1936.
5. Cf. address of Alfred M. Landon, *ibid.,* September 25, 1936.
6. *New York Times,* June 24, 25, 1936; *New York Herald Tribune,* June 26, 1936.
7. For a more comprehensive discussion of this topic, cf. D. H. Popper, "Progress of American Tariff Bargaining," *Foreign Policy Reports,* May 22, 1935.

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away between 1929 and 1932 to dollar totals comparable with those of the 1901-1910 period.[8] Commerce is necessarily a two-way process. To reopen foreign outlets for American surpluses, agricultural and industrial, it appeared imperative to enlarge home markets for the products of other countries. This might have been done by unilateral reduction of the high American tariff structure, or by common action to lower trade barriers at a world economic conference. Obstacles which seemed insuperable, however, blocked the possibility of progress along these lines. The practicable alternative appeared to be the negotiation of reciprocal agreements, with individual countries, for step-by-step approach toward the desired goal.[9] The Reciprocal Tariff Act consequently authorizes the President to negotiate such agreements altering United States tariffs, under certain limitations, by not more than 50 per cent.[10]

As the program has developed it has become evident that a two-fold aim is sought: first, stimulation of international trade through reduction of excessive barriers impeding its free flow, and second, removal of discrimination against American commerce. The latter objective cannot be attained by discriminating against foreign nations. Equality of treatment can be demanded of others only if it is accorded here. Hence, in line with its general commercial policy since 1922,[11] the United States extends to all nations the lowered rates as fixed in agreements. This procedure is held by critics to constitute "a plain gift to everyone of the duty reductions," the implication being that generalization of concessions destroys the advantages of tariff bargaining.[12] Yet the incentive to conclude agreements persists despite generalization, because concessions are usually limited to articles of which the negotiating country is the principal source of supply. Inevitably third countries do enjoy benefits of tariff reductions by bilateral pacts, although not by any means to the extent indicated by opponents of the program. The United States, too, as a *quid pro quo,* receives similar advantages from conventions between other states which practice a policy of non-discrimination.[13] The sum total of trade, both bilateral and multiangular, is thereby increased with the conclusion of each additional agreement. But under the conditional most-favored-nation policy of extending to others the concessions granted to one nation only on receipt of equivalent concessions, the objective of general trade stimulation would be lost. Preferences produce discriminations which give rise to continuous and confusing dickering, utterly impractical as a stable basis for foreign trade policy.

Conversely, where a country refuses to afford United States commerce treatment as favorable as that granted to third states, the President is authorized to withhold from that state the benefits of trade agreement concessions.[14] Both Germany and Australia are therefore denied the reduced rates in this country.[15] Each has sought to bring its direct trade and financial relations with the United States into balance by discriminatory means. The United States regards the extension of this tendency as fatal to the great volume of triangular trade. In its view the universal cutting-off of excess imports can result only in trade equalization on a lower level for all.[16]

The charge is often made that agreements are consummated by a star-chamber procedure under which one of the legal powers of Congress has been abdicated in favor of the executive bureaucracy.[17] The reply given is that the executive has adopted its methods on the basis of Congressional

8. Cf. U. S. Department of Commerce, *Statistical Abstract of the United States, 1935* (Washington, Government Printing Office, 1935), p. 420.

9. Cf. Henry F. Grady, "The New Trade Policy of the United States," *Foreign Affairs,* January 1936, p. 283.

10. For summary of terms, cf. Popper, "Progress of American Tariff Bargaining," cited.

11. The United States, by September 15, 1936, had agreed to accord most-favored-nation treatment unconditionally to 35 nations. U. S. Tariff Commission, *Commercial Treaties and Agreements of the United States in Force June 1936* (mimeographed), with Supplementary Notes.

12. George N. Peek with Samuel Crowther, *Why Quit Our Own* (New York, Van Nostrand, 1936), p. 329.

13. This country, for example, benefits by Belgian duty reductions on automobile parts, contained in an agreement with France. Such instances constantly arise. By virtue of the unconditional most-favored-nation clause, hundreds of American items were accorded advantages by Canada and France. U. S. Department of State, *Trade Agreements and the Farmer: Address by Francis B. Sayre* (mimeographed), May 20, 1936.

14. Discrimination may occur in the application of quotas and exchange controls and in activities of government foreign trade monopolies as well as in tariff matters. The State Department does not presume to dictate the commercial policies pursued by other nations, but it does seek fair treatment for its nationals when they are applied. It asks that this country receive an equitable share of all quotas and foreign exchange allotments as determined by its share during a previous representative period, and that trade monopolies use criteria of price, quality, etc., such as would influence a private enterprise, in their purchases abroad. U. S. Department of State, *Press Releases,* April 1, 5, 1935.

15. Cf. U. S. Department of State, *Press Release,* September 1, 1936.

16. U. S. Department of State, "The Foreign Commercial Policy of the United States: Address by Cordell Hull," *Publication No. 733* (Washington, Government Printing Office, 1935), pp. 8 ff. This position is borne out by League of Nations, *Enquiry into Clearing Agreements* (II, Economic and Financial, 1935, II. B. 6, Geneva, 1935), pp. 12-23, 49-51. Cf. also "The Most-Favored-Nation Clause," Report of League Economic Committee to Council, cited in *New York Times,* September 24, 1936.

17. Peek and Crowther, *Why Quit Our Own,* cited, pp. 234 ff.

experience in tariff revision. Under the new system, as under the old, hearings are held after due notification in accord with the specific requirements of the Act. Agreements, like tariff acts, are drawn up in private. Publicity at this stage would prevent due deliberation and negotiation and permit pressure groups to block the consummation of agreements in the national interest. Executive tariff bargaining, moreover, is to a far greater extent a matter of intelligent, detailed study by expert officials than can ever be the case with overburdened members of Congress harried by lobbyist activities.[18]

TRADE PACTS NEGOTIATED

For purposes of classification the trade agreements signed prior to October 1, 1936 may be divided into three general groups. One series of pacts has been concluded with northern countries whose exports to the United States consist largely of forest products and other specialties, most of which enter the country free of duty. In this category stand Sweden, Finland and, with certain qualifications, Canada. Another group of agreements involves tropical nations sending us noncompetitive products and foodstuffs, also generally on the free list. These states are Cuba, Brazil, Haiti, Colombia, Honduras, Nicaragua and Guatemala.[19] Third, the United States has come to terms with four industrial European nations — Belgium, The Netherlands, Switzerland and France—representative of the region which still constitutes the chief market for American exports and the most important source of our dutiable imports.[20]

The agreements with Cuba, Brazil, Belgium and Haiti were described in an earlier issue of these reports.[21] As a result of the Cuban pact the Island's sugar industry has been revivified by lowered preferential duties not generalized because of our special historical and economic relations with the Republic. Cuban producers of rum, fruits and vegetables have also been aided.[22] Most of the American export commodities, both agricultural and industrial, important in the trade with Cuba were accorded similar concessions.[23-24] In the agreement with Brazil, the United States is pledged to maintain coffee—which constitutes about 85 per cent of our imports—and a few other items on the free list. Duties are decreased 50 per cent on Brazil nuts, castor beans and manganese ore. Brazil, in return, accords advantages on imports of American automobiles and accessories, various types of machinery, fresh fruits and oatmeal.[25] The State Department, moreover, resisted demands that it exact preferential treatment from Brazil for American commercial creditors.[26] Instead, it paved the way for release of blocked funds due Americans on an equitable basis—an amount of foreign exchange determined by the adjusted average share of the United States in Brazilian imports over the preceding ten years.[27] In the agreement with Belgium the importation of linen fabrics, paddings or interlinings of flax or hemp, certain iron and steel products, flax, cement, glass, certain laces and many other goods was stimulated, while Belgian barriers were lowered on automobiles and parts, wood, tobacco, lard, fruits, radios and other commodities.[28]

CANADA

The trade agreement with Canada is by all odds the most important single accomplishment of the program to date. The Dominion's importance in United States trade is amply illustrated by the fact that in 1935 it accounted for one-seventh of American exports and the same proportion of imports. Relatively, Canada's economic dependence on its southern neighbor is far greater than that of the United States on the Dominion. In 1935, 37.5 per cent of Canadian exports were marketed in the United States, while the latter country was the source of 56.8 per cent of Dominion imports.[29]

18. Cf. U. S. Department of State, "American Foreign Trade Policies: Address by Cordell Hull," *Commercial Policy Series,* No. 24 (Washington, Government Printing Office, 1936), pp. 12, 13.

19. Negotiations with Costa Rica and El Salvador are still under way.

20. Intention to negotiate with Spain and Italy has also been announced.

21. Popper, "Progress of American Tariff Bargaining," cited.

22. Cf. *Cuba Importadora e Industrial* (Havana), May 1936, pp. 15 ff.

23-24. U. S. Department of State, "Reciprocal Trade Agreement between the United States of America and Cuba," *Executive Agreement Series,* No. 67 (Washington, Government Printing Office, 1934).

25. U. S. Department of State, "Reciprocal Trade Agreement and Supplementary Agreement between the United States of America and Brazil," *Executive Agreement Series,* No. 82 (Washington, Government Printing Office, 1936).

26. Cf. correspondence published in Peek and Crowther, *Why Quit Our Own,* cited, pp. 268-70.

27. Acting under the stipulations of a note accompanying the agreement, the National Foreign Trade Council has completed the arrangements. *Commercial Pan America* (Washington), March-April 1936, p. 16; *New York Times,* June 14, 1936. This is the only case in which trade agreement and debt settlement negotiations have been linked.

28. U. S. Department of State, "Reciprocal Trade Agreement between the United States of America and the Belgo-Luxemburg Economic Union," *Executive Agreement Series,* No. 75 (Washington, Government Printing Office, 1935).

29. U. S. Tariff Commission, "The Trade Agreement with Canada," *Report No. 111,* second series (Washington, Government Printing Office, 1936), pp. 13-15.

This fact, together with the great difference in size between the two markets, is the key to the successful consummation of the agreement. While the closely limited concessions made by the United States are not large enough to affect adversely the vast domestic economy, they represent a relatively large proportion of Canadian production. At the same time, Canada draws so extensively on American products that its tariff concessions are of notable importance for exporters in this country.

Trade between the two nations is to a large degree complementary. The United States exports over its northern border an extensive variety of goods, chiefly manufactured articles but also many crude products not found or produced in Canada in sufficient quantities. The Dominion's shipments to this country are in the main limited to unfinished materials. Imports of paper and wood products amounted to 48.7 per cent of the total in 1929.[30] In 1930, 80.8 per cent of United States imports from Canada were admitted free, while in 1935, 60.9 per cent paid no duty.[31] On the other hand, because of the difference in the character of commodities exported to Canada, the proportion of Canada's non-dutiable imports from the United States averages about 40 per cent.

Perhaps the most important concessions made to Canada by this country are pledges by the United States not to impose duties, during the life of the agreement,[32] on pulpwood, wood pulp, newsprint paper, certain lumber products, lobsters, certain furs, nickel and cobalt, and some less important commodities. Assurances of this type cover approximately 45 per cent of the value of total purchases from Canada in 1929. American duties, moreover, are reduced on 59 tariff items, including certain lumber and timber, Cheddar cheese, apples, hay, maple sugar, live poultry, horses, halibut, whiskey, leather and mineral products. Certain additional items enjoy tariff reductions for fixed import quotas, all excess quantities paying the preconvention rates. These include cattle weighing 700 pounds or more,[33] calves, dairy cows, cream, certified seed potatoes, and lumber and timber of Douglas fir or western hemlock.[34]

30. U. S. Tariff Commission, "The Trade Agreement with Canada," cited, pp. 28-30.

31. *Ibid.*, p. 40.

32. That is, between January 1, 1936 and December 31, 1938 and thereafter until the agreement is denounced on six months' notice.

33. The weight restriction largely eliminates Mexican cattle, which are generally lighter.

34. For detailed tariff schedules, cf. U. S. Department of State, "Reciprocal Trade Agreement between the United States of America and the Dominion of Canada, and Related Notes," *Executive Agreement Series*, No. 91 (Washington, Government Printing Office, 1936).

In all, rates are reduced in the agreement on almost 60 per cent of the dutiable imports of which Canada was in 1929 the principal foreign source of supply. The aggregate value of all imports directly affected by the trade agreement was about $308,000,000 in that year, or almost exactly three-fifths of the total value of our imports from Canada.[35]

Canadian concessions to the United States may be divided into four groups:

1. Direct tariff reductions on almost one-third of the dutiable imports from the United States into Canada, together with an assurance that no duty will be applied on commodities constituting one-third of the free imports. About 180 items fall in this classification, including fresh and canned fruits and vegetables, much machinery and electrical equipment, iron and steel products, miscellaneous wood and paper manufactures, and magazines and periodicals (which will hereafter be duty free).[36]

2. Extension to the United States of most-favored-foreign-nation treatment for all imports. Under this stipulation the United States now enjoys the lowest rates paid by any non-British country. As a result duties are lowered on 767 Canadian tariff items, comprising most of the industrial and agricultural products exported from the United States to Canada.

3. An important easement of the Canadian system of arbitrary valuation for tariff purposes, itself an effective trade barrier.

4. General advantages, such as privileges for American commercial travelers and transit trade.[37]

Strictly limited though they are, the concessions made to Canada on agricultural products have aroused protest in the Middle West. Critics have singled out imports of Cheddar cheese and livestock for attack. The Administration denies, however, that lower tariffs on these products have been a major factor in adverse market changes. The fall in livestock prices is said to be due to abnormally heavy domestic slaughter; tariff quotas in the agreement limit imports of cattle and calves at reduced rates to one per cent of the average annual domestic slaughter of cattle and calves. Low prices for Cheddar cheese are said to have been seasonal. With imports at only 1.9 per cent of domestic production, prices have since recovered until in August

35. "Analysis of Agreement with Canada," U. S. Department of State, *Press Releases*, November 23, 1935, p. 395.

36. Estimate of U. S. Tariff Commission, "The Trade Agreement with Canada," cited, p. 84. The existing duty is also bound for two items.

37. U. S. Department of State, "Reciprocal Trade Agreement between the United States of America and the Dominion of Canada," cited.

they were at the highest level for that month since 1929.[38]

Those who cavil at increased agricultural imports from Canada apparently fail to realize that, dollar for dollar, more American farm exports than imports have benefited from reduced duties despite a larger increase in the latter than in the former. In the first seven months of 1936 American shipments of such agricultural commodities to Canada —chiefly oranges and grapefruit, and other fresh fruits and vegetables—reached a total of $13,120,000, as against imports at lower duties of $11,409,000.[39]

United States imports from Sweden and Finland, the other northerly nations with which agreements have been negotiated, are predominantly non-dutiable. In 1934 wood pulp and newsprint paper accounted for $27,250,000 of Sweden's $34,012,000 total of shipments to this country.[40] These same commodities made up 91.3 per cent of the total imports from Finland. American markets in these areas are relatively unrestricted by customs barriers. It is, therefore, not surprising that exports of American commodities on which Sweden reduced duties amounted to only 6 per cent of our exports to that country in 1935, while those on which the existing tariff status was stabilized amounted to 55 per cent. American duties were reduced on 7 per cent of the imports from Sweden and were bound (principally on the free list) on 68 per cent.[41] Rates are reduced and tariff treatment is bound against unfavorable change in essentially similar proportion in the Finnish agreement.[42]

American export items receiving concessions or assurances include cotton, salmon, fruits, rosin, sulphur, copper, gasoline, automobiles and parts, motion picture films, machinery, certain rubber manufactures and agricultural implements. In the Swedish agreement the United States agreed to retain on the free list two kinds of wood pulp and Swedish "health" bread.[43] Existing relatively low duties were stabilized on wire rods, paper board and wallboard, and vacuum cleaners, and there were reductions on certain high-priced iron and steel items, other paper products, and matches.[44] Finnish specialties such as granite, small cream separators, birch plywood, wooden spools and Gruyère cheese receive more favorable treatment in the American market, while the assurances with regard to newsprint and wood pulp are reaffirmed.[45]

TROPICAL COUNTRIES

The guarantee of continued free entry for their natural products is in general the most important concession made by the United States to these countries—seven Latin American states and Netherlands India. Except for Cuba, between 93.1 and 99.8 per cent of all the shipments from each was imported without payment of duty in 1934.[46] Among the commodities covered by this group of pacts are coffee, bananas, cocoa beans, ipecac, emeralds, logwood, dyeing and tanning materials, babassu oil, platinum, deer and reptile skins, carnauba wax and cabinet woods. The Latin American nations have reduced or stabilized duties on a broad range of American products. Prominent among the items affected are dairy products, fruits and vegetables, meats, lard, oatmeal, wheat flour, textiles, rubber tires, iron and steel manufactures, paints and varnishes, radio apparatus, automobiles and parts, hides and skins, medicines and pharmaceutical products, and many types of machinery and office appliances—in short, most of the typical American export specialties.[47]

38. Cf. addresses of George N. Peek and Alfred M. Landon, *New York Times*, August 16, September 25, 1936; U. S. Department of State, *The Canadian Trade Agreement and the American Cattle Industry* (mimeographed); and statement by Secretary Wallace, *New York Times*, September 26, 1936.

39. *Foreign Crops and Markets* (Washington), September 21, 1936, pp. 351-59.

40. U. S. Department of Commerce, *Foreign Commerce and Navigation of the United States, 1934* (Washington, Government Printing Office, 1935), Vol. I, pp. 341, 342.

41. U. S. Department of Commerce, "Summary of United States Trade with World, 1935," *Trade Information Bulletin*, No. 831 (Washington, Government Printing Office, 1936), p. 9; U. S. Department of State, *Analysis of the Trade Agreement between the United States and Sweden* (mimeographed), May 25, 1935.

42. U. S. Department of State, *Trade Agreement between the United States and Finland: Analysis of the General Provisions and Reciprocal Tariff Benefits* (processed), May 18, 1936.

43. Sweden of course receives the benefit of pledges to retain on the free list other kinds of pulp, pulpwood and newsprint paper, made in the Canadian agreement at a later date. An illustration of the cumulative effects of successive agreements is provided in the case of the duty on sulphate wrapping paper, reduced from 30 per cent ad valorem to 25 per cent in the Swedish agreement and further reduced to 20 per cent in the Finnish agreement.

44. U. S. Department of State, "Reciprocal Trade Agreement between the United States of America and Sweden," *Executive Agreement Series*, No. 79 (Washington, Government Printing Office, 1935).

45. U. S. Department of State, *Trade Agreement with Finland: Text of General Provisions and Schedules* (mimeographed), May 18, 1936.

46. Computed from data in U. S. Department of Commerce, *Foreign Commerce and Navigation of the United States, 1934*, cited. For Cuba, 92.4 per cent of the imports was dutiable, but cane sugar imports—admitted under a quota arrangement permitting domestic producers to grow all they conveniently can and hence essentially supplementary to home production—constituted 70.1 per cent of the total imports.

47. The texts of the agreements with Haiti, Colombia, Honduras, Nicaragua and Guatemala are available either in the State Department's *Executive Agreement Series*, cited elsewhere in this report, or in mimeographed releases of the Department. An analysis of each has also been compiled.

MAJOR EUROPEAN AGREEMENTS

The crucial test of the trade agreements program, it has been stated, lies in its success in reducing obstacles to trade with the major powers of Europe. The industrial goods produced by these countries are more or less competitive with our own and are as a rule subject to high duties in the American market. Virtually all nations on the Continent strive to reduce their dependence on agricultural imports as a measure of war preparedness. Europe harbors a network of restrictive, preferential and arbitrary trade controls, whose constantly changing pattern precludes the development of stable commercial relations. Since the United States sells more to most of these nations than it purchases from them, it holds a relatively weak bargaining position for pressing its demands.

A beginning has been made in meeting this challenge. Several important European agreements have been concluded. Two others—those with Spain and Italy—have long been formally in the stage of negotiation.[48] Even before domestic and international complications arose to prevent their conclusion, progress on these agreements was held up by inability to achieve a basis of compromise between the liberal economic practices advocated by Secretary Hull and the predilection for bilateral balancing on the part of Spanish and Italian officials. Only when difficulties of this nature are successfully overcome can our European tariff bargains be extended.

THE NETHERLANDS

The large American export surplus with the Netherlands is more than offset by the excess of imports from the Dutch colonies, which are included in the agreement.[49] The colonial trade differs substantially from that with the homeland. The latter purchases typical American products for a highly developed country: raw materials, farm products, automobiles and machinery. The East Indies imports well and refinery machinery, automobiles and trucks, petroleum products, iron and steel, and cotton cloth. In return, we receive from Holland a number of world-renowned specialties such as diamonds, wrapper tobacco, flower bulbs, seeds and food products. From the Indies come tropical commodities most of which are not subject to duty: crude rubber (by far the most important), sisal, tapioca, palm oil, kapok, tea, drugs, tin and other crude materials.[50]

Most Dutch duties are too low to constitute serious obstacles to American trade. The chief barriers are certain "crisis" controls making up a complex system of quotas, monopoly fees and other restrictive measures. The Netherlands tariff concessions are therefore rather limited: cotton, sulphur, copper, turpentine, lubricating oil, certain lumber, rolled oats, breakfast foods and, under certain conditions, lard and oleo oil are guaranteed continued free entry. Existing low duties are stabilized on refrigerators, office machinery, canned asparagus, fruits, tires, automobiles and leaf tobacco. Import monopoly fees are reduced on certain fruits and rolled oats. Liberalized quotas are granted for 28 items including textiles and clothing. Finally, the Netherlands agrees to purchase American wheat and wheat flour to the extent of 5 per cent of its domestic consumption, provided these can be bought at world price levels.

The United States lowers the tariffs on potato starch, cigar wrapper tobacco (a product of the Indies), Dutch type cheeses and herrings, flower bulbs, seeds, cocoa and chocolate, and harvest hats. Certain products, most of them imported chiefly from the Indies, are bound on the free list: quinine, kapok, sisal, palm oil,[51] pepper, tapioca and fertilizer.[52-53]

FRANCE AND COLONIES

The trade agreement with France ends more than a century of altercation with regard to tariff policy and does away with discrimination against American products arising from lack of a most-favored-nation arrangement between the two states. France now agrees to a large measure of restriction on its general practice of retaining complete freedom to change duties and quota allotments. The latter are to be fixed so that this country will receive a portion of the total determined by its share during a previous base period, which is not specified in the agreement.

The trade affected by quota and tariff adjustments and assurances represents about 21 per cent of the total imports into France from the United

48. Intention to negotiate with Spain was announced on September 17, 1934; with Italy, on January 16, 1935.

49. Cf. U. S. Department of State, *Trade Agreement between the United States and the Kingdom of the Netherlands: Analysis of the General Provisions and Reciprocal Concessions* (mimeographed), December 21, 1935.

50. For detailed analysis of trade with the various customs divisions of the Kingdom of the Netherlands, cf. U. S. Tariff Commission, *Concessions Granted by the United States in the Trade Agreement with the Kingdom of the Netherlands* (Washington, 1936), pp. II—XXVI.

51. The excise tax of 3 cents a pound on palm oil, levied in the Revenue Act of 1934, is bound against increase.

52-53. U. S. Department of State, *Text of Trade Agreement between the United States and the Kingdom of the Netherlands* (mimeographed), December 20, 1935. The agreement expires January 1, 1939, or on six months' notice thereafter.

States in 1935, or about $24,500,000, including approximately 40 per cent of all dutiable imports. Rates are reduced on automobile chassis (50 per cent reduction on a specified number), fruits, sewing machine heads, cash registers and other items; they are lowered by virtue of the most-favored-nation clause on rice, refrigerating apparatus, machinery, canned salmon, tires, paper and certain textiles; and they are bound on fruits, fish and automobile parts. Supplementary quotas granted permit increased exports to France of apples and pears, canned salmon, lumber, silk hosiery, automobiles, agricultural machinery, radios, refrigerators and typewriters. The French tobacco monopoly guarantees that its purchases of American leaf tobacco during the 1936 season will be 10 per cent greater than in 1935; American motion picture interests are assured that their films for exhibition in France will receive no less favorable treatment than at present; and the "import turnover tax" is reduced from 6 and 4 per cent on one-third of France's imports from the United States to 2 per cent, which is the rate applied on domestic sales of similar French items.

The United States cuts duties on 71 articles affecting $19,070,000, or about one-third, of imports from France in 1935. The most important changes are made on cigarette paper, brandy, champagne, still wines and vermuth, vanilla beans, lace, tinsel products, broadsilks, Roquefort cheese and perfumes—all distinctively French specialties. On all of these products the duties were increased in the Tariff Act of 1922, while rates on Roquefort cheese and broadsilks were again raised in 1930. For some items the duty had been in excess of 75 per cent ad valorem; some are not produced in the United States despite tariff protection; while in still other cases differences in price or quality clearly demarcate domestic production from imports.[54]

The advantage of stability gained by the consummation of this agreement is in itself considerable. On the French side, it is hoped that the mutual concessions will restore the position of France in the American market, in terms of gold values, to that held in 1932, before the fall of the American dollar cut down French exports. While the supplementary quotas for United States products open the possibility of an increased export trade for this country, this does not necessarily indicate French willingness to accept more foreign goods. The supplements are composed of portions of quotas not filled by other nations and involve no increase in the total amounts of importations permitted under the quota system.[55]

SWITZERLAND

Since most Swiss duties are levied for revenue rather than protection, few tariff easements were obtained in this agreement, although many rates are bound against increase. Switzerland's principal concessions affect quota and license provisions. Nineteen typical American products receive more favorable treatment in this respect. Chief among them are wheat, fresh and dried fruits, lard, rice, lumber, automobiles and petroleum products.[56] In 1931, before wheat and lard shipments had been cut to negligible proportions by Swiss import restrictions, the trade represented in the total of Swiss concessions and assurances constituted 70 per cent of all Swiss imports from the United States.[57] In addition to the benefits of most-favored-nation treatment with regard to both tariffs and quotas, the United States is to have the cooperation of Swiss authorities, through an export control system, in combatting the smuggling of watches and watch movements, hitherto of considerable extent.

Most of Switzerland's exports to the United States are of high quality and value. American concessions are represented by duty reductions on certain chemicals,[58] watch movements and related products, Swiss textile specialties, Emmenthaler and Gruyère cheese, certain types of machinery and hat braids—all items of prime importance to Switzerland.[59]

SPECIAL ARRANGEMENT WITH U.S.S.R.

The State Department has also concluded an agreement with the Soviet Union harmonizing to some extent the commercial policies of the two countries. In an exchange of notes dated July 13, 1935 the United States agreed to grant the U.S.S.R., which trades through a state monopoly,

54. U. S. Department of State, *Trade Agreement between the United States and France: Text of General Provisions, Schedules, Protocol, and Notes* (mimeographed), May 13, 1936. The life of the agreement runs from June 15, 1936 to July 1, 1937, and thereafter until denunciation on six months' notice.

55. *La situation économique et financière* (Paris), May 15, 1936, p. 309.

56. U.S. Department of State, *Trade Agreement between the United States and Switzerland: Analysis of the General Provisions and Reciprocal Concessions* (processed), January 9, 1936.

57. *Ibid.*

58. The principal concessions in chemicals are made on coal-tar dyes, one of the many products imported from Switzerland on which the Tariff Act of 1930 imposed a duty of over 75 per cent. Germany is also an important supplier of dyes but for the present cannot of course obtain the benefits of the reduction.

59. U. S. Department of State, "Reciprocal Trade Agreement between the United States of America and Switzerland," *Executive Agreement Series,* No. 90 (Washington, Government Printing Office, 1936). Effective February 15, 1936 for three years and thereafter until denunciation on six months' notice.

the benefits of tariff reductions contained in trade agreements for one year; in return the Soviet proclaimed it would "take steps to increase substantially the amount of purchases . . . it would make in this country."[60] The Soviet government gave informal assurance that it would buy $30,000,000 of American goods during the year.[61] This figure represented a considerable increase over the $12,000,000 annual average of Soviet purchases in the United States during the calendar years 1932-1934. The agreement having worked successfully—Soviet purchases of over $37,000,000 appeared probable—it was extended for another year on July 11, 1936.[62]

ACHIEVEMENTS OF TRADE PROGRAM

Any attempt to survey the results of the trade agreements thus far concluded must of necessity be highly tentative. With the exception of the Cuban pact, those now effective have not been in operation long enough to permit deductions concerning long-period trends. Until more detailed trade statistics for 1935 and 1936 are published, the extent to which the agreements themselves are responsible for trade changes cannot be determined.

In the accompanying table a comparison is made between the general trend of American foreign commerce and trade with the countries with which agreements had been in force at least four months by the end of June 1936. Total American imports increased 17 per cent in the first half of 1936 as compared with the corresponding period in 1935, while the increase in exports was only 12.7 per cent. Imports have been stimulated by the 1934 drought and industrial recovery; to most economists, this development appears natural and indeed beneficial. They point out that a rise in imports has always in recent history been a concomitant of increasing industrial production and employment.[63] American industries need more foreign materials in periods of business activity. Increased imports are necessary if foreigners are to be in a position to buy American exports in greater quantities. Moreover, the United States is

EFFECTS OF RECIPROCAL TRADE AGREEMENTS, JANUARY-JUNE 1936*

TOTAL EXPORTS; IMPORTS FOR CONSUMPTION

(in thousands of dollars)

	U. S. Exports		*U. S. Imports*		*% Increase*	*% Increase*
	1935	*1936*	*1935*	*1936*	*Exports*	*Imports*
Total	1,024,111	1,154,141	984,351	1,152,017	12.7	17.0
Total 6 agreement countries[1]	254,076	288,583	268,339	341,623	13.6	27.3
All other countries	770,035	865,558	716,119	810,394	12.4	13.2
U.S.S.R.	9,538	20,822	7,895	11,095	118.3	40.5
All other countries excluding U.S.S.R.	760,497	844,736	708,224	799,299	11.1	12.9
Cuba[2] (6 mos.)	28,138	33,138	56,908	85,057	17.8	49.5
Belgium[3] (4 mos.)	17,090	18,754	10,969	17,019	9.7	55.2
Haiti[4] (5 mos.)	1,240	1,528	412	717	23.2	74.0
Sweden (6 mos.)	17,283	19,349	16,383	20,677	12.0	26.2
Canada (6 mos.)	158,438	182,773	129,864	159,767	15.4	23.0
Brazil (6 mos.)	21,866	24,209	47,395	49,306	10.7	4.0
Honduras[5] (4 mos.)	1,772	1,743	2,627	2,281	*1.6†*	*13.2†*
Netherlands[6] (5 mos.)	20,200	21,415	15,261	17,941	6.0	11.0
Netherlands India[6] (5 mos.)	4,532	5,132	20,952	25,505	13.2	21.7
Switzerland[7] (4 mos.)	2,656	2,482	4,620	6,488	*6.6†*	40.4

*Statistics from U. S. Department of Commerce, *Monthly Summary of Foreign Commerce of the United States.*

†Signifies decrease.

1. With which agreements were effective on or before January 1, 1936: Cuba, Belgium, Haiti, Sweden, Canada and Brazil.
2. For first 6 months of 1935, compared with 1934, U. S. exports increased 30.1%; imports rose 29.3%.
3. Agreement effective May 1, 1935; figures are January through April.
4. Agreement effective June 3, 1935; figures are January through May.
5. Agreement effective March 2, 1936; figures are March through June.
6. Agreement effective February 1, 1936; figures are February through June.
7. Agreement effective February 15, 1936; figures are March through June.

60. Identic notes published in U. S. Department of State, *Treaty Information Bulletin*, No. 70, July 1935, p. 17. Soviet manganese is thus guaranteed the tariff rate accorded in the Brazilian agreement.

61. U. S. Department of State, *Press Release*, July 13, 1935, pp. 45 ff.

62. *Ibid.*, July 11, 1936, pp. 18 ff.

63. Francis B. Sayre, *America Must Act* (New York, World Peace Foundation, 1936), p. 12.

still decidedly a creditor nation on balance. Foreigners' remittances of interest and dividends to us far exceed similar payments abroad by nationals of this country.[64] Only by increasing imports to a greater extent than shipments abroad can the United States maintain a reasonably stable international economic position and avoid default on foreigners' obligations to this country.

If any conclusion may be drawn from the table, it is that trade agreements appear to be accomplishing their purpose: the lowering of barriers so as to permit freer response to the normal economic forces which give rise to commerce. Because of the exigencies of the United States' domestic and international economic position, greater pressures have been set up for an increase in imports than for higher exports. Trade with the agreement countries as a whole has increased in both directions. Imports from these states, however, have shown far greater relative response to current conditions than imports from all our suppliers taken as a unit. Should the general trend of American foreign trade be reversed, a corresponding spurt in exports to agreement countries might be anticipated. In any event the increase in total trade with the agreement countries is the important factor.

In the case of Cuba, where the agreement has been in effect since September 3, 1934, some striking results have been recorded. During the first twelve months thereafter, our imports rose in value by 43.6 per cent excluding sugar, and exports by 58.8 per cent.[65] The trade with Cuba has steadily continued to increase. Exports and imports were each approximately 33 per cent larger in 1935 than in 1934.[66]

In the first year of reduced tariffs, total exports to Belgium rose by 23.4 per cent, while imports jumped 58.2 per cent. In the same period, United States exports and imports to all nations increased by only 11.7 and 22.7 per cent respectively.[67] Government officials point out that the United States has directly improved its relative position in the Belgian market. While Belgium's imports from all countries during the first year of the agreement increased by 43.3 per cent, its imports from the United States rose 66.6 per cent. Moreover, imports from this country of commodities on which the United States had received customs concessions were 92.7 per cent greater.[68]

Critics assert that the larger portion of the increase in exports to Belgium is due to a rise in cotton shipments — the largest export item — of $6,078,000, or 111 per cent, in the period under consideration.[69] No concession was made on cotton in the trade agreement. It is also claimed that the rate of increase in imports on which the United States made concessions far outstripped that of other imports. The contention is put forward that other countries, acting under the generalization of tariff benefits, have increased their shipments to the United States of commodities on which concessions were made to Belgium. The implication drawn is that increased American exports cannot be attributed primarily to the trade agreements, but that on the contrary the program has fostered larger imports about which nothing can be done until the agreements expire.[70]

In response to this indictment it must be said that while trade agreements do facilitate commerce in particular articles, their broadest effect is to free general currents of trade which spring from special needs and special capabilities.[71] By stimulating Belgian shipments to the United States, the agreement increases Belgian purchasing power here. Hence Americans have been able to export in greater quantity not only items included in the agreement, but cotton, already on the Belgian free list, with no expectation that it will be made dutiable. The vital fact is that the total trade with Belgium has been markedly increased since the trade pact became operative.

EFFECT ON AMERICAN ECONOMY

It is hardly necessary to state that the trade agreements program has not yet brought about profound

64. Cf. U. S. Department of Commerce, "The Balance of International Payments of the United States in 1935," *Trade Information Bulletin*, No. 833 (Washington, Government Printing Office, 1936), pp. 32, 56; also Frank W. Fetter, "U. S. Balance of International Payments," *Foreign Policy Reports*, May 15, 1936. The net creditor position is placed at $7,250,000,000 by the Department of Commerce, in a statement apparently intended to refute claims made by George N. Peek and others. *New York Times*, August 14, 1936.

65. Figures quoted in Grady, "The New Trade Policy of the United States," cited, p. 294. If sugar is included, the increase in imports is 227.8 per cent. Cf. *Monthly Summary of Foreign Commerce of the United States*, August 1934-August 1935.

66. U. S. Department of Commerce, "Summary of United States Trade with World, 1934," cited, pp. 10-11.

67. Computed from *Monthly Summary of Foreign Commerce of the United States*, April 1934, April 1935, April and May 1936.

68. "The Trade Agreements Program and Our Foreign Trade," address of Lynn R. Edminster, U. S. Department of State, *Press Release*, July 20, 1936. The divergence between United States export figures and Belgian import statistics is due at least in part to the devaluation of the belga, which had the effect of increasing the price of American imports in terms of Belgian currency.

69. Computed from *Monthly Summary of Foreign Commerce of the United States*, May 1934-April 1936. Total exports to Belgium increased by $11,347,000.

70. Data and inferences contained in letter of Walter R. Peabody, Secretary, American Tariff League, *New York Times*, July 22, 1936.

71. The jump in cotton shipments may have been due to Belgian industrial revival after the devaluation of April 1, 1935, or to increased transshipments to Germany.

economic changes in American life. By its very nature tariff bargaining must be a slow, gradual process, especially in a democratic state. Yet accomplishments under the program have not been inconsiderable. It is estimated that the United States has given assurances that it will retain on the free list roughly one-quarter of its non-dutiable imports, while it has reduced rates on one-fifth or more of its dutiable imports. Approximately one-sixth of all American exports have received concessions.[72] For the present, therefore, a term has been put to the steady whittling down of the free list and the general upward trend of duties in American post-war tariff and revenue acts.

Concessions and assurances gained for American enterprise extend over the whole broad range of our typical exports.[73] A start has obviously been made in breaching barriers raised against American agricultural products. The outlook for shipment of fruits and vegetables abroad would appear to be better than that for basic foods such as grain, home production of which is deemed essential for self-sufficiency in Europe. While a careful balance between gains to American agriculture and industry has apparently been sought, a survey of the agreements indicates that it will probably be easier to secure additional foreign markets for finished articles such as machinery and automobiles than for most farm products.

Reductions and assurances with regard to American imports also cover a large number of commodities. Nevertheless, changes in tariffs have been made with such caution and technical skill that it appears no efficient industry has been substantially injured. The Administration, limited by law to a 50 per cent cut, has in many instances left sizeable protective margins. The reduced duty on certain matches, for example, is still over twice what it was prior to 1930; the new rate on cigar wrapper tobacco is still equivalent to 79 per cent ad valorem. Reductions conform closely to lists enumerating items of which imports have decreased, articles of which imports are under 5 per cent of domestic production, commodities on which rates of over 50 per cent are levied, and more or less non-competitive dutiable imports in the production of which foreign countries have a distinct advantage.[73a]

In a few cases small, relatively inefficient groups such as the manganese producers, long the recipients of scarcely defensible high protection, are no doubt feeling the pinch of increased competition. The protests of large industries often have little basis in fact. A statement by the American Iron and Steel Institute, for example, that imports of iron and steel products on which duties were lowered in the Belgian agreement increased in one year by 173 per cent to $2,310,000 fails to reveal the entire trade picture. For the calendar year 1935 total imports of iron and steel semi-manufactures and advanced manufactures, steel mill products, industrial machinery, and vehicles other than agricultural amounted to $27,600,000; exports of these products reached the sum of $497,100,000. The industry obviously has nothing to gain by advocating a policy of self-containment. Duty reductions do not appear to have had an appreciable effect on either prices or production of steel products. On the contrary, exports of finished manufactures — many of which contain steel — were 16 per cent higher in the first seven months of 1936 than they were for the same period in 1935, a reflection of increased purchasing power abroad and of lower barriers against American exports.[74]

72. B. B. Wallace and H. V. V. Fay, "Die jüngste Handelspolitik der Vereinigten Staaten," *Weltwirtschaftliches Archiv* (Kiel), July 1936, p. 56.

73. The following table includes both concessions creating new American export opportunities and assurances stabilizing present treatment. Items in parentheses are sub-categories of the inclusive groups not so enclosed. Caution must be observed in the use of this table. All that it indicates is that at least one variety of the broad classifications listed has been mentioned in the number of agreements opposite which the classification is grouped (e.g., at least one species of fruit in each of the 14 agreements).

AGREEMENTS IN WHICH LEADING AMERICAN EXPORT ITEMS ARE MENTIONED

Number of agreements	*Export Products*
14	fruits and nuts, (canned fruits), rubber and manufactures, leather and hides
13	machinery, automobiles and parts, (passenger cars and chassis), chemicals and related products, (fresh fruits), (dried fruits), packing-house products, (meat products), (tires), vegetables and preparations
12	(electrical machinery and apparatus), (canned vegetables)
11	(industrial machinery), iron and steel advanced manufactures, fish
10	(lard), cotton manufactures
9	. . . . .
8	petroleum and products, (agricultural machinery and implements), sawmill products, silk manufactures, dairy products
7	(medicinal, etc., preparations), iron and steel mill products, copper and manufactures, wheat including flour, photographic and projection goods
6	unmanufactured cotton, unmanufactured tobacco, (wheat flour), naval stores, etc., paper and manufactures
5	(boards, planks, etc.), (rosin), advanced wood manufactures, books and printed matter
4	(gasoline), (lubricating oil), (wheat), tobacco manufactures
3	(fertilizer and materials), vegetable oils
2	(kerosene), sulphur
1	furs
0	coal and coke

73a. Cf. tabulations in American Tariff League, *Monthly Bulletin*, January, February and May 1936.

74. Cf. statement of American Iron and Steel Institute, *New York Herald Tribune*, September 20, 1936; *Survey of Current Business* (Washington), September 1936, pp. 9, 12, 49, 50.

American rate reductions are characterized by the greatest variation. While many industrial duties not appreciably raised in 1930 have been cut below the levels established in 1922, the important agricultural rates which have been treated appear in general to have been restored almost to the status existing prior to enactment of the Hawley-Smoot tariff. As a powerful vested interest, agriculture has received especially careful treatment and cannot be said to have been severely affected by reductions hitherto made. No agreements have been concluded with large producers of competitive agricultural commodities such as Argentina, Uruguay, Australia, New Zealand and South Africa. The few duty cuts on agricultural products made in the trade agreements in effect prior to January 1, 1936 might be held responsible, if quota imports of sugar and tobacco are omitted, for only $1,442,331 of the $250,000,000 increase in farm imports in 1935. The remainder of the foreign farm commodities purchased in this country hurdled the Hawley-Smoot tariff wall; and in agreements subsequently concluded, with two minor exceptions, duties have not been altered on the five grains—corn, wheat, oats, barley and rye. Mounting agricultural imports in 1935, over 40 per cent of which were entirely noncompetitive, were due primarily to the 1934 drought and the recovery in consumption and prices accompanying the industrial revival of the following year.[75]

RECIPROCITY AND WORLD RECOVERY

With unmistakable if uneven economic recovery apparent throughout the world, the pressures which forced recourse to commercial practices destructive of trade have now been noticeably eased. The restoration of currency stability in Europe, apparently heralded by the devaluation of the franc on October 1, 1936 and of the lira four days later, lays the basis for a new effort to stimulate an extensive recovery in world trade. It is noteworthy that devaluation has been followed in both cases by the modification of import restrictions. Increasingly the close interrelationship between the revival of international commerce and the solution of pressing population and raw material problems is being realized.

The American reciprocal trade program in its present form permits the United States to participate in the vital task of economic reconstruction. True, no definitive relationship has yet been worked out with proponents of trade policies dissimilar to our own. The effectiveness of the trade program is necessarily limited until agreements can be concluded with such important customers as the United Kingdom and the British Dominions other than Canada, and Germany, Italy, Mexico, Japan and China. Imperial preferential tariffs will seriously hinder but not prevent the conclusion of agreements with the United Kingdom and the Dominions. Elaborately controlled and restrictive foreign trade systems in countries which, like Germany and Italy, seek a high degree of self-containment still appear to preclude the successful conduct of trade relations under the American system.[76] The Administration, furthermore, has not yet negotiated with low-cost countries like Japan and China, imports from which sometimes seriously disturb American price levels. Under existing law the United States has instead been obliged to raise tariff rates against Japanese textiles affording competition of this type.[77]

Nevertheless, the agreement with the Soviet Union attests to the fact that if the principle of equitable treatment is accepted much can be done to adjust the American program to varying commercial conditions and systems of trade control. Although it has been designed to free rather than control the flow of trade, the program can be adapted to keep pace with the development of planned economy at home and abroad. Tariff quotas admitting a definite volume of imports at reduced rates, all excess shipments paying the normal tariff, are an instrument for the stimulation of foreign trade in conjunction with the development of domestic planning. At present, imports of sugar from Cuba and various farm products treated in the Canadian agreement have been successfully limited to predetermined fractions of domestic production. Domestic planning need not necessarily be isolationist in orientation. It may allow for an increasing degree of international intercourse.

The conclusion is inescapable that the effect of the Hull program on consumers and efficient producers is salutary. The former benefit by lower prices and a higher standard of life; the latter gain expanded markets. The process of readjustment, to be sure, is only beginning. Nevertheless the gradual removal of tariff barriers, often a cloak for monopoly, cannot logically be resisted by those who decry government intervention in business.

75. Cf. U. S. Department of State, *Agricultural Imports in 1935 and the Trade Agreements Program* (mimeographed, 1936); "The Significance of Agricultural Imports," *Senate Document No. 263*, 74th Congress, 2nd Session (Washington, Government Printing Office, 1936), pp. 9-13.

76. The imposition of countervailing duties against German exports to this country and their subsequent withdrawal when Germany ended payment of the subsidies which had made many of those exports possible illustrates the deadlock in commercial relations. *Treasury Decisions* (Washington), T. D. 48360, June 11, 1936; 48463, August 13, 1936.

77. *New York Times*, May 22, 1936.